

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LAKEWOOD VALLEY)
DEVELOPMENT COMPANY FOR AN)
ADJUSTMENT OF RATES PURSUANT TO THE) CASE NO. 9629
ALTERNATIVE PROCEDURE FOR SMALL)
UTILITIES)

O R D E R

IS IT ORDERED that:

1. The Staff Audit Report for Lakewood Valley Development Company ("Lakewood") attached hereto as Appendix A shall be included as a part of the record in this proceeding. In the event a public hearing is held, staff preparing the audit report will be available for cross-examination.

2. Lakewood shall have until the close of business September 30, 1986, to file written comments concerning the contents of Appendix A. In the event Lakewood desires a public hearing, it shall file a Motion requesting such hearing, with a copy to all parties of record.

Done at Frankfort, Kentucky, this 17th day of September, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Hemminger
For the Commission

ATTEST:

Executive Director

APPENDIX A

**APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 9629 DATED 9/17/86**

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

**STAFF REPORT
ON
LAKEWOOD VALLEY DEVELOPMENT COMPANY
CASE NO. 9629**

**Prepared By: Jeff Shaw
Public Utilities Financial
Analyst
Sewer and Water Revenue
Requirements Section
Rates and Tariffs Division**

STAFF AUDIT REPORT

ON

LAKEWOOD VALLEY DEVELOPMENT COMPANY

CASE NO. 9629

PREFACE

On July 7, 1986, Lakewood Valley Development Company ("Lakewood") filed its application in Case No. 9629 under the Alternative Rate Filing Procedure for Small Utilities ("ARF"). The proposed rate adjustment was designed to generate additional revenues of \$2,216 on an annual basis, which represents an increase of 6.5 percent above the revenues of \$34,072 reported by Lakewood for calendar year 1985.

In order to shorten and simplify the processing of this case the Commission chose to perform a limited financial audit of Lakewood's operations for the test year, calendar year 1985. The Commission's objective was to reduce the need for written data requests, decrease the time necessary to examine the application, and therefore, decrease Lakewood's expense related to the application. The audit was performed by Commission staff personnel on September 4, 1986, at Crestwood, Kentucky.

SCOPE

The scope of the audit was limited to obtaining information to determine whether the operating expenses reported in the test year were representative of normal operating conditions and to evaluate the pro forma adjustments proposed in Lakewood's application. The audit consisted of interviews with Lakewood's

owner and accountant and the review of invoices and other documents supporting Lakewood's test year operating expenses.

FINDINGS

Operating Revenues

Lakewood's application reflects 224 customers for purposes of calculating its proposed rate. Based on 224 customers, Lakewood's current rate of \$13.09 per month will produce annual revenues of \$35,186 compared to \$34,072 reported by Lakewood for the test year. This difference was explained by an increase in the number of customers during and subsequent to the test year. For rate-making purposes the staff recommends an adjustment to increase Lakewood's annual operating revenues by \$1,114, to \$35,186, to reflect the increase in customers to the current level of 224.

Operation and Maintenance Expenses

Lakewood reported test year operating expenses of \$28,465 and proposed several adjustments to increase operating expenses by a total of \$3,466. The staff found no material discrepancies in the level of test period expenses and found the majority of Lakewood's proposed adjustments to be reasonable.

The staff does take exception with one adjustment proposed by Lakewood: the adjustment of \$3,000 for office sharing and clerical expenses. Lakewood reported no such expense during the test year and indicated in its application that these expenses have previously been charged to non-utility operations. The application further indicated that the adjustment was intended to

reflect expenses for a secretary's salary, postage and office supplies.

In the course of the audit it was determined that there was no supporting documentation for this adjustment and that the amount of \$3,000 was an arbitrary selection made by Lakewood's owner and accountant. The staff, while not supporting the proposed adjustment, recognizes that some level of expense should be reflected for these types of expenses. The Commission, in recent cases involving small, privately-owned utilities, has allowed \$1,800 for a management fee as compensation for the types of clerical and office-related expenses being addressed herein. Without some supporting documentation for the proposed adjustment of \$3,000, the staff finds that \$1,800 is the maximum amount it can recommend be included for rate-making purposes.

SUMMARY

Based on the staff's recommendations contained in this report, Lakewood's adjusted operating statement would appear as follows:

	<u>Lakewood Pro Forma</u>	<u>Recommended Adjustments</u>	<u>Staff Pro Forma</u>
Operating Revenues	\$34,072	\$ 1,114	\$35,186
Operating Expenses	<u>31,931</u>	<u><1,200></u>	<u>30,731</u>
Net Operating Income	<u>\$ 2,141</u>	<u>\$ 2,314</u>	<u>\$ 4,455</u>

Lakewood based its requested increase on an operating ratio of .88. In this case the staff adjustments result in an operating ratio of .873 which should be sufficient for Lakewood to meet its operating expenses and provide for reasonable equity growth.

Therefore, the staff recommends that no increase in rates be granted at this time.

Respectfully submitted,


Jeffrey S. Shaw
Public Utilities Financial
Analyst